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CHAPTER-1
INTRODUCTION

Companies need funds for setting up new projects, expansion, diversification, modernization, mergers or takeovers, etc. which can be fulfilled through retained earnings out of profits and external borrowings. The external borrowings can be in the form of equity or preference shares, debentures, loans and advances, deposits from public and inter corporate lending. Primary Market discharges an important function of transferring savings, especially of individuals and households, with surplus money, to the corporate sector through issue of securities (shares and debentures) to public. On the other hand, it provides opportunity to issuers of securities; government as well as corporates, to raise resources to meet their requirements of investment

Primarily, issues made by an Indian company can be classified as Public, Rights, Bonus and Private Placement. A public issue is an offer to the public to subscribe to the share capital of the company. Public issue can be further classified into Initial public offer (IPO) and Further public offer (FPO). When an unlisted company makes either a fresh issue of securities or offers its existing securities for sale or both for the first time to the public, it is called an IPO. This paves way for listing and trading of the issuer's securities in the Stock Exchanges.

CHAPTER-2

LITERATURE REVIEW

Review of Literature:

The short run performance has been widely studied by the researchers.

Winston Sahi (1995) stated that the Canadian IPOs showed positive average first day returns.

Tim Loughran and Jay R. Ritter (2002) found that in the 1980s, the average first-day return on initial public offerings (IPOs) was 7%. The average first-day return doubled to almost 15% during 1990-1998, before jumping to 65% during the internet bubble years of 1999-2000.

George Kanatas and Chris Stefanadis (2005) presented a unified analysis of going-public decisions, IPO underpricing and venture capital.

Vicente Pons-Sanz (2005) studied a sample of 175 Spanish equity offerings from 1985 to 2002 to test who benefits from IPO underpricing and why.

Michelle Lowry et.al (2008) found that the volatility of initial returns was higher among firms whose value was more difficult to estimate, i.e., among firms with higher information asymmetry.

David Chambers and Elroy Dimson (2008) presented a comprehensive evidence covering British IPOs since World War I. During the period from 1917 to 1945, public offers were underpriced by an average of only 3.80%, as compared to 9.15% in the period from 1946 to 1986, and even more after the U.K. stock market was deregulated in 1986.

Thomas J. Boultona,, Scott B. Smart, Chad J. Zutterc (2009) after examining 7,306 IPOs from 34 countries, found that IPOs were underpriced less in countries where existing public firms produced higher quality earnings information.

The Long run performance analysis of IPOs has been another area of interest amongst the researchers.
Ritter (1991) showed that the strategy of investing in IPOs at the end of the listing day and holding them for three years had caused a loss of 17% to the investor.

Ritter (1998) documented and analyzed three empirical patterns in IPOs: short-run underpricing, hot issue markets, and long-run underperformance.

Arif Kurshed, Ram Mudambi and Marc Goergen (1999) proposed that the long run performance of IPOs is a function of pre-IPO factors including managerial decisions and firm's performance prior to going public.

Maher Kooli and Jean Marc Suret (2001) made a long-run performance analysis of Canadian IPOs and stated that the IPOs under-performed significantly.

Sumit Aggarwal, Chunlin Liu and S. Ghon Rhee (2003) studied the relationship between investor demand for IPOs prior to offering and the after market performance of IPO firms during the period from 1993 to 1997 in the Hong Kong Stock market

Maher Kooli, Jean Francois and Marc Suret (2003) in another study measuring the long-run performance of 141 Canadian IPOs between 1986 and 2000, found that the underpriced IPOs outperformed in the long-run which confirms the signaling hypothesis

Re-Jin Guo, Baruch Lev, and Charles Shi (2004), documented that Research and Development (R&D) activities significantly affected both the initial under-pricing of IPOs (R&D is positively correlated with under-pricing) and their long-term performance (R&D is positively related to long-term performance).

In this study, an attempt is made to study the investor experience in the short run and the long run by investing in the bookbuilt IPOs under various sectors.

CHAPTER-3

CHAPTER SCHEME

The study is divided into six chapters

The first chapter deals with the definition and significance of the IPOs and the Book building mechanism in the pricing of the IPOs. The chapter also outlines the regulatory framework for the issue of shares through book building mechanism.

The second chapter deals with the review of literature.

The third chapter deals with the Research Methodology and the topics covered under this chapter are research statement, need of the study, research design, nature and sources of data, period of the study, objectives and scope of the study, tools and techniques of analysis and limitation of the study.

The fourth chapter provides a profile of the companies that have made an IPO at NSE India through 100% Bookbuilding mechanism from the period 1999-2008(August). It provides information regarding the sector to which the company belongs, business of the company, NSE symbol, date of incorporation, age of the company, issue size, face value of the share, issue price and the premium. The companies are classified into the sectors based on the New Industrial Classification (NIC) 2008.

The fifth chapter deals with the short run and the long run analysis of the price performance of the shares of the sample companies and a correlation analysis of the long run performance with the independent variables namely, offer size, offer price, premium on issue and the age of the company.

The sixth chapter gives the conclusion of the study and gives suggestions based on the findings.

CHAPTER -4

RESEARCH METHODOLGY

4.1 Research Statement

The research statement tested is as follows:

'Sectoral Analysis of Short run and Long run Performance of Initial Public Offerings of companies Listed at NSE'.

The study focuses on short run and long run returns provided by the Initial Public Offerings (IPOs) which were made through 100% Bookbuilding mechanism at NSE from the time of introduction of the book building mechanism at NSE (1999) till August 2008.

4.2 Need of the study

The study focuses on the returns accruing to the investors on the listing of the shares of the IPO companies and on purchasing the shares of the IPO companies on the listing day and holding them in the long run. The purpose of the study is to analyse the investor experience of investing in the IPOs in the short run as well as the long run under various sectors and the relationship between the offer size, offer price, premium on issue and the age of the company on the performance of the IPO share prices in the long run..

4.3 Research Design

4.3.1 Nature and Sources of Data: The data for the analysis has been collected from the secondary sources which include the offer documents of the sample companies and various websites.

4.3.3 Sample Size: The sample size for the short run analysis was 238 companies. The sample size for the long run analysis was 208.

4.3.4 Time period of Analysis: The analysis includes the companies that made an IPO through bookbuilding process at NSE India during the period 1999-August 2008.

4.4 Objectives of Study

Main Objectives:

The main objectives of the study are as follows:

1. To study short run performance of the Indian IPOs in different sectors of the Indian economy.
2. To study long run performance of the Indian IPOs in different sectors of the Indian economy.

Other Objectives:

1. To study the relationship between the offer size and long run IPO performance.
2. To study the relationship between offer price and long run IPO performance.
3. To study the relationship between premium on issue and long run IPO performance
4. To study the impact of company's age on the performance of IPO in the long run.

4.5 Hypotheses

1) Hypothesis I: There is no relationship between the offer size and the long run performance of the IPO.

2) Hypothesis II: There is no relationship between the offer price and the long run performance of the IPO.

3) Hypothesis III: There is no relationship between the premium on the issue and the long run performance of the IPO.

4) Hypothesis IV: There is no relationship between the age of the company and the long run performance of the IPO.

4.6 Scope of the study

The research attempts to study the short run as well as long run price performance of the IPOs issued through 100% Book building process at NSE India. The short run and long

run analysis of the sample companies is done in two sections viz. analysis of the performance of the individual companies and under various sectors. The long run performance of the companies is then explained with the help of four variables: offer size, offer price, premium on the issue and the age of the companies. For the purpose of sectoral analysis, the companies are classified into various sectors according to New Industrial Classification (NIC) 2008.

The future studies can explain the long run performance of IPOs in the light of some other variables example the profitability of the company, the promoters' stake before and after the issue, issue expenses, etc.

4.7 Tools of Analysis

In this study the price performance of the IPOs has been studied both in the short run and the long run. To study the short run price performance of the sample companies Market Adjusted Abnormal Returns (MAAR) for each company has been calculated. To study the long run price performance of the sample companies Buy and Hold Abnormal Returns (BHAR) are calculated at quarterly intervals till a period of three years.

4.8 Limitations of the study

The study suffers from the following limitations:

1. The study uses secondary sources for data collection, so it suffers from all the limitations of the secondary data.
2. The BHAR calculated to measure the long run returns of the offering suffers from skewness biases. The long run return of an individual security is highly skewed; whereas the long run return for a reference portfolio (due to diversification) is not. Consequently, the BHAR, the difference between the long run returns of individual security and the long run return of the reference portfolio, is also skewed.
3. BHAR can magnify underperformance, even if it occurs in a single period.
4. The stock prices have not been adjusted for inflation.

CHAPTER 5
DATA ANALYSIS

(A) Short run Analysis

The average initial return for all the companies together was 28%. 69% of the total number of companies showed positive returns in the short run.

(B) Long run Analysis

The long-run returns shown by BHAR were found to be negative at the end of all the quarters of analysis. At the end of three years the mean BHAR for all the companies together was found to be -0.17.

CHAPTER 6

SUGGESTIONS

Following are the suggestions based on the findings:

The investors are advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. This can be facilitated by running various investor awareness programmes that will help the investor to understand and interpret the information available in the offer documents.

The retail investor is an integral part of the Indian Capital Markets and SEBI has laid down the rules and recommendations to safeguard their interest. The success of book-building mechanism depends upon all the participants in the process. It is the cooperation among the issuing company, the book runners and the investors under the surveillance of SEBI that can bring about the desired results.

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